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Israel-Syria-Egypt

There have been no hostile actions on either the Sinai or Golan fronts in the wake of the partial Israeli mobilization yesterday, but the sharp increase in military tension shows no sign of abating. Syria has not yet agreed to renew the mandate of the UN observer force, which expires on November 30, and if it refuses this action will heighten Israeli nervousness that the Arabs are considering a resumption of hostilities. In public statements over the past several weeks, the Israelis have studiously kept open the possibility that Israel might launch a preemptive attack if war seems unavoidable.

Israeli concern that Syria might not renew the force's mandate may partially explain yesterday's callup, which was estimated [redacted] to have involved 30 percent of Israel's reservists. Israeli spokesmen have said they are taking limited steps because the Egyptians and Syrians have been observed making advanced preparations on their respective fronts.

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In response to questions from the US attaché in Tel Aviv, Israel's chief of military intelligence, General Gazit, has said that Tel Aviv is taking some "small precautions" because of "worrisome" Syrian activity. Gazit claimed that the total number of reservists mobilized was "much less than 10,000." He said that, although much of the Syrian activity could be viewed as either defensive or offensive preparations, some did not seem consistent with a defensive posture.

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[redacted]
He suggested that it may be a deliberate attempt

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to lull the Israelis and mask offensive intentions. Israel would demobilize if the "worrisome" signs disappeared, Gazit said, but he felt that tension is likely to continue, at least through November 30--the expiration date of the UN Defense Force's mandate.

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The Israelis seem less concerned about Egypt's actions, despite the continuing high level of Egyptian exercises. According to Gazit, the Egyptians have increased the alert of their military forces, but he did not find this troublesome. He speculated that the Egyptians may be taking precautions after being alerted by the Syrians.

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Although some explosions reportedly were heard at several points along the Syrian disengagement line early yesterday morning, no incidents on the ground have been reported.

The Israelis appear anxious to convey the impression that their actions are precautionary. Prime Minister Rabin said publicly yesterday that Israel will not violate the disengagement agreements, but cautioned that the Arabs must do likewise. He warned that Israel will be ready to fight if the Arabs break the agreements and he stressed the importance of continuing UN observer presence on the Syrian front.

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In Israeli eyes, the Arabs appear to be hardening their negotiating terms and to be more willing to consider a resumption of hostilities as a means to pressure the Israelis into making political concessions. The Israelis point particularly to the Rabat summit decisions and the subsequent Arab effort to force the Palestine Liberation Organization on Israel as a negotiating partner. Prime Minister Rabin is also especially concerned that the Soviet Union is encouraging the Syrians to take a more militant line and step up what the Israelis already consider to be a massive military resupply effort to Damascus.

By his refusal thus far to agree to extend the UN mandate, Syrian President Asad may hope to provoke a crisis that will force both the US and Israel to give Syrian demands greater attention. The Syrians have made no secret of their unhappiness with Secretary Kissinger's step-by-step approach to negotiations at last month's Arab summit, and did everything they could then to block another round of bilateral negotiations between Egypt and Israel that did not at least include similar talks between Syria and Israel.

Since the Secretary's visit to Damascus on November 7, [redacted]

[redacted] the Syrians have accelerated their efforts to improve their defensive positions in anticipation of an Israeli preemptive air strike. Asad apparently wants to be ready to blunt any Israeli response to his decision to revoke the mandate. It is also possible, although less likely, that Syria plans to move directly to offensive action to underscore its demands for an Israeli withdrawal.

The initiation of hostilities in the Golan Heights by either Syria or Israel would put heavy pressure on Egypt to open a second front to divert some of the action from Syria. There seems to be no question that Cairo would aid Syria at least by sending equipment and probably troops to the northern front.

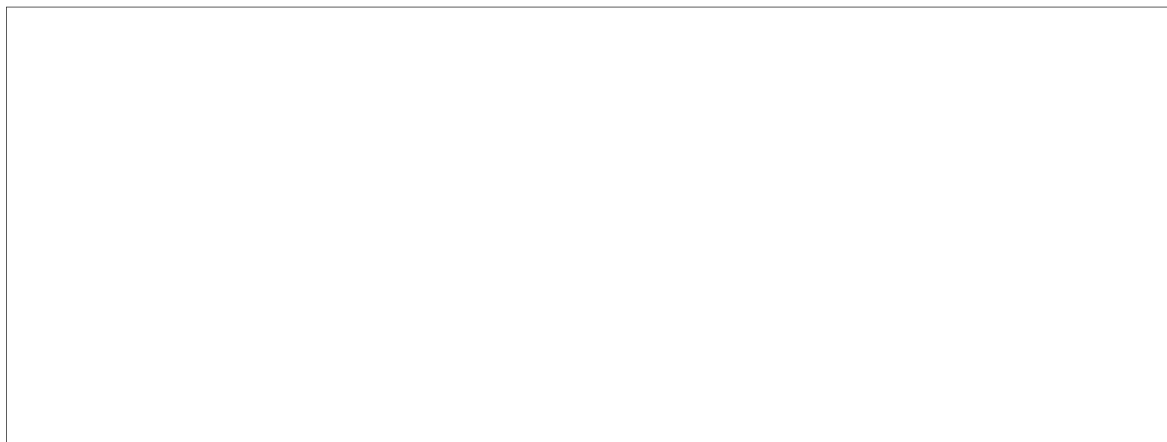
The initiative for yesterday's increase in military tensions came from Israel in reaction to Syrian actions. It is still unclear whether Syria has made threatening

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military movements, but the negative Syrian attitude toward renewal of the UN mandate implies that Syria is prepared at least for an Israeli military reaction. Both Israel and Syria can now claim hostile intent by the other side if they choose to take additional military steps.

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PORTUGAL

Left-wing and moderate elements of the Portuguese Armed Forces Movement are in the midst of a showdown that may topple the government of President Costa Gomes.

The US defense attaché in Lisbon reports that the Armed Forces Superior Council, an advisory group formed in late October to coordinate military activity in the government, has met to demand the dissolution of the Armed Forces Movement Coordinating Committee. The positions of President Costa Gomes, Prime Minister Goncalves, and General Otelo de Carvalho, military commander of Lisbon and deputy commander of the Continental Operations Command, are said to be precarious. No military alert has occurred, but high-level meetings reportedly were in progress during the night at the Institute of Higher Defense Studies.

Some 10 to 12 left-wing activists, among those responsible for publishing the Armed Forces Movement Bulletin, have provoked controversy with each issue. The fourth and most recent issue struck a multiple blow at the provisional government and, particularly at the economic minister, precipitating the current showdown.

US embassy sources report that the attack on Portugal's economic policy was inspired by a member of the Communist-dominated Portuguese Democratic Movement who had hoped to receive the economy portfolio in the first provisional government. The attack was publicly rebutted by Minister Without Portfolio Melo Antunes and the Coordinating Committee.

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CHINA

The appointment of 61-year-old Chiao Kuan-hua as foreign minister is a strong sign that Peking is trying to ensure the continuation of present foreign policies after the death of Chairman Mao and Premier Chou En-lai. Chiao, who was the senior vice foreign minister, is Chou's closest associate in the Foreign Ministry and has long played a more active foreign policy role than did his predecessor, the unimpressive Chi Peng-fei.

Chiao's appointment suggests that the National People's Congress, China's rubber-stamp legislature, is close at hand. It is expected to ratify appointments to top government positions. The congress has been postponed often because of wrangling over personnel appointments, but it now seems likely that agreement has been reached on filling most of the vacancies.

Coming on the eve of Secretary Kissinger's trip to China, Chiao's appointment may indicate that he will play a major role in Sino-US negotiations as a stand-in for the hospitalized Chou En-lai. This arrangement would assure Chou's close personal control over the conduct of the negotiations. Similarly, Mao, who is residing in his home province of Hunan, will probably monitor the talks through Wang Hai-jung, a young woman who was recently named a vice foreign minister and who has virtually unlimited access to the reclusive Chairman. [REDACTED]

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USSR-CHINA

In an extended conversation with Ambassador Stoessel on November 14, Soviet Foreign Ministry official Mikhail Kapitsa expressed Moscow's disdain for Peking's recent statement about the Sino-Soviet border. Kapitsa, chief of the First Far Eastern Department of the Ministry of Foreign Affairs and a longtime China specialist, told the ambassador that the Chinese proposal for an agreement contained in the anniversary greeting sent to Moscow earlier this month was a "meaningless gesture" that merely restated Peking's position in the border talks.

Kapitsa took the opportunity to point out that the Soviets had already offered to negotiate a settlement of the riverine boundary between the two countries on the basis of the main channel of the border rivers. The proposal, first advanced in March 1973, acknowledges Chinese sovereignty over some 430 river islands, including Damansky, the site of the clashes between Soviet and Chinese forces in March 1969. Kapitsa said Peking had rejected Moscow's offer, which was part of a broader proposal for a border settlement.

In keeping with Moscow's general line that it is still keeping the door open, Kapitsa told Ambassador Stoessel that Moscow's chief negotiator at the border talks, Deputy Foreign Minister Ilichev, might return to Peking to determine whether "the Chinese have anything new to say." He added, however, that this would not happen in the near future.

Kapitsa showed considerable impatience with Peking's handling of the three crew members of the Soviet helicopter that went down in China in March. If Peking does not release the crew, he warned, Moscow would have to retaliate, "When one deals with a beast, one must understand the methods of the beast." Moscow has privately discussed retaliation in the past, but thus far has taken no action.

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According to Kapitsa, only in the long term--at least a decade after Mao is gone--is there any hope for improved Sino-Soviet relations. Not until Mao's immediate successors are replaced by a new generation of leaders, he said, will it be possible for relations to reach even the level of those existing today between China and the US.

Kapitsa said Moscow would soon respond with an authoritative statement. He may have been alluding to a statement Politburo member Kirilenko made the following day. Kirilenko said Moscow would continue to rebuff anti-Soviet slander, but it was still ready to negotiate with Peking at any time. Also, a Hungarian commentary of November 14 provided an authoritative, Soviet-inspired rebuttal of the positions taken in the Chinese message that was in all respects consistent with the views expressed by Kapitsa.



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WEST GERMANY

Chancellor Schmidt's recent public announcements that West Germany will turn to an antirecessionary program around the first of the year may have more political bite than economic content. The announcement was apparently made hastily because the program is still in its formative stages and has not yet been coordinated within the government.

There is a great deal of disagreement within the government about how stimulative a program to adopt. The finance and economics ministries are confident that real growth of 2.5 percent will be achieved next year without further stimulation to the economy. They reportedly are looking for a program that can be made to look somewhat larger than it is, while actually limiting it to granting tax breaks for investment expenditures.

The two ministries and the Bundesbank are in agreement that there is relatively little leeway for additional expansionary measures. A major fiscal boost will come from a cut in income taxes on January 1 and additional measures that go into effect as employment diminishes and tax receipts grow more slowly. The officials also feel that a major relaxation of monetary policy would rekindle inflation and, in any case, international considerations put fairly narrow limits on German action in this area. Expanding the money supply would lower interest rates, resulting in unwanted capital movements from the country and a lower exchange rate for the mark.

Schmidt, nonetheless, feels that some additional fiscal stimulus will be required to achieve even 2 percent growth next year. In addition, he is worried that rising unemployment, predicted to reach 1 million this winter, will spell trouble at the polls for his Social Democrats. The party sustained a series of losses in elections this year, most recently in Hesse and Bavaria last month. Party leaders want to reverse this trend in the four state elections next year, especially in May in heavily industrial North Rhine - Westphalia, West Germany's most populous state. They are also concerned about the November 1976 elections, when a new Bundestag and chancellor will be chosen.

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Schmidt wants a program in hand for his visit to the US and for the EC summit meeting next month. He declared before the Bonn Foreign Press Association on Wednesday that it is the joint responsibility of Washington and Bonn to rally other nations in the fight against world inflation and mounting unemployment. Other European leaders have been pressuring Schmidt for several months to stimulate the West German economy in order to increase German demand for their exports. Schmidt very likely will suggest that the US also adopt an expansionary economic policy to help head off world recession.

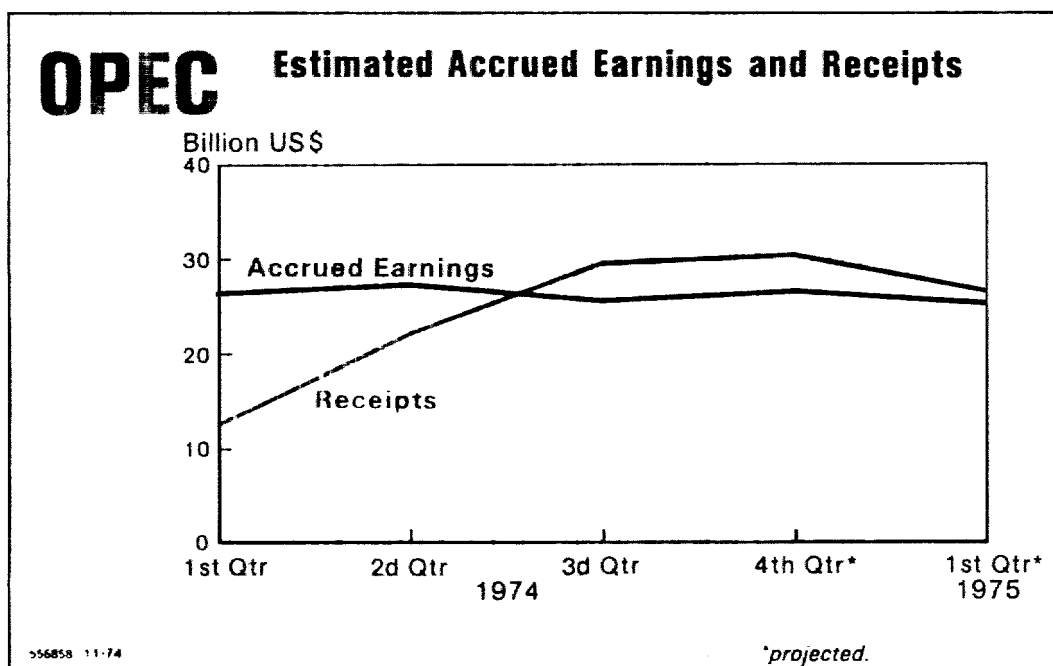
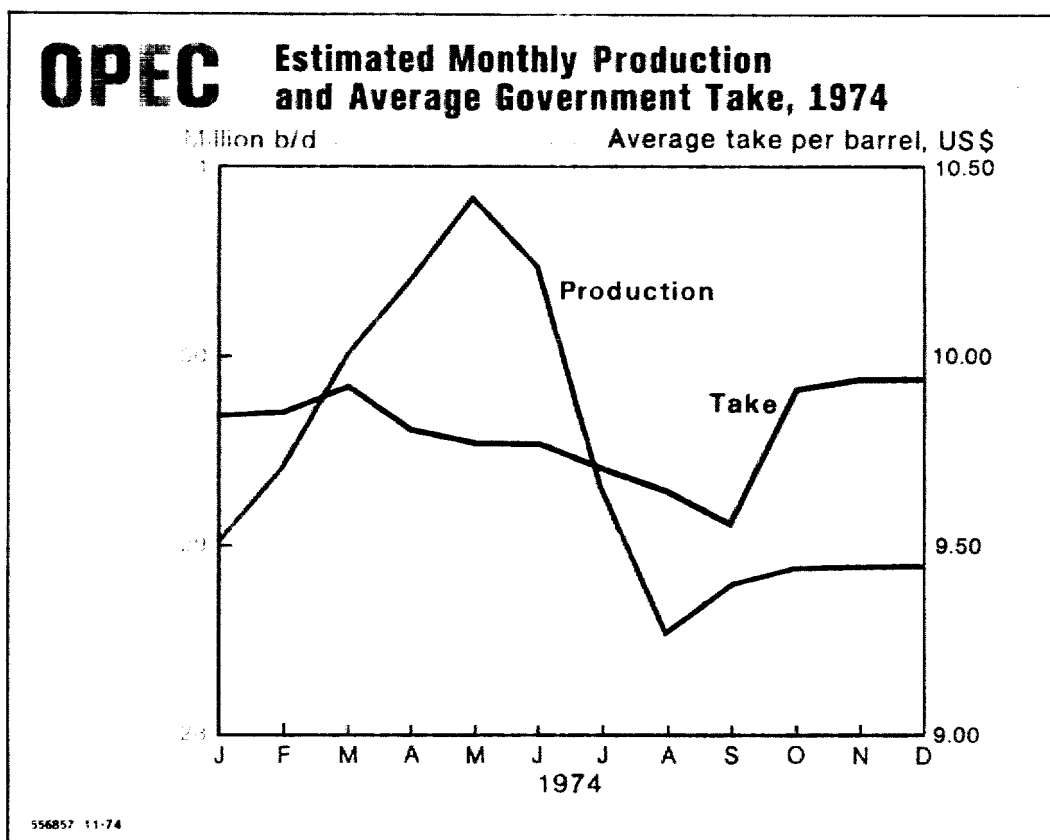
While Schmidt seems willing to accept more inflation to get more growth, his ability to act is narrowly limited. The projected federal budget deficit for 1975 is about \$10 billion, and the local governments are predicting a combined deficit of similar size. He must move cautiously to avoid having to trim his program as the political campaigning for the national elections in 1976 picks up.

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OPEC

OPEC countries will earn more than \$105 billion and actually receive about \$94 billion from oil exports this year. The difference results from an average two-month lag in payments by oil companies to the producing countries. The bulk of the oil receipts will be concentrated in the last half of this year--\$60 billion, compared with \$34 billion in the first half. Second-half receipts will reflect all of the January and most of the July price increases and are inflated by an additional \$10 billion in retroactive payments resulting from increased government participation.

The bulk of the receipts will go to relatively few countries. The two largest producers, Saudi Arabia and Iran, will receive about \$43 billion, over two thirds in the second half of the year. Together, the five largest producers--Saudi Arabia, Iran, Nigeria, Venezuela, and Kuwait--will account for over 70 percent of total OPEC revenue this year.

OPEC oil receipts should decline when the retroactive payments are completed early next year. Any further price increases will be partly offset by decreased demand. If present production and prices are maintained, oil payments in the first quarter of 1975 will total \$26.9 billion--almost \$4 billion below the level of receipts in the third and fourth quarters of 1974. Even if currently anticipated price hikes are instituted, payments will still drop by about \$2 billion for the first quarter of 1975.

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ITALY

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There have been press reports--officially denied by Rome--that Saudi Arabia was considering financial assistance to Italy. The Italians reportedly have also been negotiating with Iran for a large loan.

The Italian electrical agency, along with other Italian firms, has been shut out of the Eurodollar market since last spring because of Italy's poor international credit standing. This is the first evidence that an Italian firm may be successful in overcoming this problem with a sizable loan directly from an oil-exporting country. The loan, if completed, would provide sufficient foreign exchange to finance Italy's balance-of-payments deficit for one to two months.

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LIBYA

Libya announced a long-awaited government reorganization this week that expanded the cabinet from 18 to 22 ministries. Prime Minister Jallud and the key ministers of petroleum, interior, and finance retained their posts. The only significant new appointment is the elevation of Major al-Munim al-Huni, one of the few moderates on the Revolutionary Command Council, to foreign minister--a post that had been vacant for nearly two years.

Although al-Huni--like his colleagues--is first and foremost an Arab nationalist, he has more pragmatic views on inter-Arab and international issues and seems more open-minded toward Washington. US officials in Tripoli believe his appointment may improve US access to the regime.

Qadhafi's appointment of al-Huni suggests that the Libyan leader has made some minimal accommodation to his subordinate's more moderate outlook. Vigorous quarrels between the two over foreign policy prompted al-Huni to leave the country last May in total disgust. He returned to Tripoli in early September, apparently only after conciliatory promises from both Qadhafi and Jallud.

Qadhafi may hope that al-Huni's appointment will improve Libya's chances for regaining Egyptian cooperation and assistance. The Egyptians see al-Huni as one of the few Libyans with whom they can work effectively.

[REDACTED]

Qadhafi may have calculated that, as foreign minister, al-Huni will be more directly accountable to him and, therefore, less susceptible to Egyptian influence. In the past, the Libyan leader has shrewdly manipulated his colleagues' assignments to head off potential opposition.

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Al-Huni is probably one of the most intelligent members of the ruling council and is considered an important member of the regime as a result of his close association with the country's intelligence apparatus. He is a low-keyed individual and has preferred to stay out of the lime-light, perhaps because of ill-health. [REDACTED]

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PERU

President Velasco has again lashed out at critics of his regime. According to press reports, the widely read English-language weekly Peruvian Times has been closed and several officials of the Lima bar association have been arrested.

The regime moved against the lawyers after their organization criticized a loan agreement the government signed with Japan; the magazine was shut down because of its comments on the loan. In a press conference on November 13, Velasco called critics of the agreement "counterrevolutionaries," flailed those who criticized other aspects of his government, and referred to possible CIA involvement in Peruvian affairs.

The President's sensitivity to criticism has increased in the past year as he has tried to implement more radical policies. The expropriation of major newspapers in July caused considerable protest by the middle class and led to several bombing incidents in early October. Since November 9, six more minor explosions have apparently occurred. Dissident navy officers, who reportedly were involved in the earlier terrorism, are likely to join in renewed violence. The navy already is upset over attempts to force the retirement of several top officers with whom Velasco disagrees.

Velasco may try to take advantage of civilian opposition to help unite the armed forces behind him. Increased unrest and further repressive measures, however, are likely to have an unsettling effect on moderate army officers who already feel that Velasco's policies have become too divisive. [REDACTED]

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THAILAND-BURMA

Thai police, in releasing the leader of a major Burmese insurgent group, may have set back efforts to improve Thai-Burmese relations. The Burmese had asked the Thais to hand over Kachin leader Zaw Seng, who was picked up last summer. Instead, he rejoined his insurgent followers early this month in north Thailand, where they have operated for years with Bangkok's tacit approval.

In addition to fighting Burmese government forces, the Kachins have engaged in narcotics smuggling across the border. The Thais may have lacked sufficient evidence to convict Zaw Seng on a narcotics charge, and it is possible that some sort of payoff may have been involved in his release.

The Thais have been trying to improve relations with Rangoon, with a view to greater cooperation between the two countries against narcotics trafficking. These efforts are likely to continue, although Rangoon may now be less receptive to Thai overtures.

Although other narcotics traffickers who operate in north Thailand undoubtedly are relieved at Zaw Seng's release, his detention apparently had little impact on their activities. The US embassy in Bangkok reports that even Kachin smuggling operations across the Thai-Burmese border were not seriously disrupted while Zaw Seng was in jail.

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FOR THE RECORD

Japan: The recent assault on the US and Soviet embassies in Tokyo by a small radical group may encourage other extremist acts before and during President Ford's visit, but should not affect the security of the President and his party.

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Likely targets are Japanese government buildings or foreign missions that are lightly guarded or not guarded at all. The police are confident, however, of their ability to protect the presidential party.

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